

Message Text

UNCLASSIFIED POSS DUPE

PAGE 01 SEOUL 05696 01 OF 02 231220Z

43

ACTION EA-09

INFO OCT-01 EUR-12 IO-13 ISO-00 CIAE-00 DODE-00 PM-04 H-02

INR-07 L-03 NSAE-00 NSC-05 PA-02 PRS-01 SP-02 SS-15

USIA-15 EB-07 COME-00 TRSE-00 OMB-01 FRB-01 XMB-04

OPIC-06 AID-05 STR-04 /119 W
----- 121088

R 230822Z JUL 76

FM AMEMBASSY SEOUL

TO SECSTATE WASHDC 8475

INFO AMEMBASSY TOKYO

AMEMBASSY TAIPEI

AMCONGEN HONG KONG

U S DEL MTN GENEVA 369

U S MISSION GENEVA

U S MISSION OECD PARIS 551

UNCLAS SECTION 1 OF 2 SEOUL 5696

HONG KONG FOR REFFINATT

E.O. 11652: N/A

TAGS: ECON, KS

SUBJ: ROKG RAISES 1976 ECONOMIC PERFORMANCE TARGETS --
BUT NOT MUCH

REF: SEOUL 5450

SUMMARY: PUBLICLY ACKNOWLEDGING THAT 1976 ECONOMIC PERFORMANCE IS FAR OUTSTRIPPING ORIGINAL EXPECTATIONS, THE ROKG ECONOMIC PLANNING BOARD (EPB) HAS ANNOUNCED A REVISED SET OF TARGETS AND POLICY MEASURES FOR THE REMAINDER OF 1976. WITH THE BANK OF KOREA'S PRELIMINARY DATA SHOWING FIRST QUARTER REAL GNP 15.9 PERCENT ABOVE A YEAR EARLIER, EPB CONSERVATIVELY FORECASTS- ECONOMIC GROWTH OF 11 PERCENT FOR 1976 AS A WHOLE. REVISING THE EXPORT FORECAST UP TO A CAUTIOUS \$7.1 BILLION, EPB LOWERED THE CURRENT ACCOUNT DEFICIT TARGET BY A TIMID \$200 MILLION TO
UNCLASSIFIED
UNCLASSIFIED

PAGE 02 SEOUL 05696 01 OF 02 231220Z

\$1.3 BILLION. AS REPORTED IN REFTTEL, THE EMBASSY EXPECTS MUCH MORE SUBSTANTIAL IMPROVEMENT. THE PRINCIPAL IMMEDIATE

CONCERN IS THE EXCESS LIQUIDITY BEING GENERATED BY THE SURGING EXTERNAL SECTOR WITH THE THREAT THAT POSES FOR REKINDLING INFLATIONARY PRESSURES. HOWEVER, INFLATION TARGETS FOR THE CURRENT YEAR APPEAR ATTAINABLE. END SUMMARY.

1. IN OFFICIAL RECOGNITION THAT 1976 ECONOMIC PERFORMANCE IS FAR OUTSTRIPPING ITS ORIGINAL EXPECTATIONS, THE ROKG'S ECONOMIC PLANNING BOARD (EPB) HAS ANNOUNCED REVISED ECONOMIC TARGETS AND POLICY MEASURES FOR THE REMAINDER OF 1976. CITING THE BANK OF KOREA'S (BOK) PRELIMINARY FIRST QUARTER DATA SHOWING REAL GNP UP 15.9 PERCENT OVER THE SAME QUARTER A YEAR EARLIER, EPB NOW ESTIMATES FIRST HALF REAL GNP AT 14.2 PERCENT ABOVE LAST YEAR'S FIRST SEMESTER AND CONSERVATIVELY PROJECTS AN ECONOMIC GROWTH RATE OF 11 PCT FOR THE FULL YEAR. THIS CONTRASTS WITH AN ORIGINAL PLANNING ASSUMPTION OF 7 TO 8 PERCENT GROWTH IN WHAT WAS TO BE A YEAR OF RESTRAINED EXPANSION WITH AN EMPHASIS ON BALANCE OF PAYMENTS AND INFLATION TARGETS.

2. UNDERLYING THE REVISED OUTLOOK IS THE STRENGTH OF EXPORT DEMAND IN REBOUNDED INTERNATIONAL MARKETS. 1976 EXPORTS ARE NOW OFFICIALLY PROJECTED TO RISE TO \$7.1 BILLION, A FORECAST THE ESTIMATORS THEMSELVES CONCEDE IS CAUTIOUS. AS INDICATED IN REFTTEL, THE EMBASSY BELIEVES AN EXPORT FIGURE OF ABOUT 7.5 BILLION IS MUCH MORE PROBABLE, A PERFORMANCE WHICH, IN ITSELF, WOULD RAISE THE GNP FORECAST BY ANOTHER PERCENTAGE POINT OR TWO.

3. FURTHER EVIDENCE OF THE DOMINANT ROLE OF EXPORT DEMAND IS REVEALED IN THE BOK'S FIRST QUARTER GNP DATA WHICH SHOW JAN-MARCH REAL EXPORTS UP 61 PCT OVER LAST YEAR'S WEAK FIRST QUARTER. FIRST QUARTER GNP DATA BY SECTOR SHOW MANUFACTURING HEADING THE PARADE WITH A GAIN OF 28 PERCENT. OUTPUT IN AGRICULTURE AND FISHERIES WAS UP 14 PERCENT, DUE LARGELY TO AN UPTURN IN FISHERIES PRODUCTION. REFLECTING TAUT GOVERNMENT FISCAL POLICY, THE SOCIAL OVERHEAD CAPITAL AND SERVICES SECTOR TRAILED BEHIND WITH A 7.8 PERCENT INCREASE. IMPORT VOLUME, MEANWHILE, ROSE A MODEST 10.2 PERCENT.

4. THE MAJOR PROBLEMS FACING ECONOMIC POLICY MAKERS FOR
UNCLASSIFIED
UNCLASSIFIED

PAGE 03 SEOUL 05696 01 OF 02 231220Z

THE SECOND HALF ARISE FROM THE EXCESS LIQUIDITY BEING GENERATED BY THE SURGING EXTERNAL SECTOR, AND THE THREAT THIS POSES FOR REKINDLING INFLATIONARY PRESSURES. AS ONE MEASURE OF THIS LIQUIDITY, SEASONALLY ADJUSTED MONEY SUPPLY ROSE BY 17.8 PERCENT THROUGH THE FIRST SIX MONTHS. TO ADAPT TO THE HIGHER GROWTH EXPECTATIONS, EPB HAS MOVED THE FULL YEAR TARGET FOR GROWTH OF MONEY SUPPLY (M-1) UP FROM 20 PERCENT TO 25 PERCENT WHILE RETAINING THE ORIGINAL CONCEPT OF HOLDING MONETARY EXPANSION TO APPROXIMATELY THE SAME LEVEL AS PROJECTED GROWTH OF NOMINAL GNP (I.E. REAL GNP PLUS INFLATION). DOMESTIC CREDIT EXPANSION

IS LOOKED TO AS A KEY ELEMENT IN HOLDING MONETARY GROWTH IN CHECK. THE MINISTRY OF FINANCE HAS JUST ANNOUNCED THAT THE GOVERNMENT WILL HOLD DOMESTIC CREDIT EXPANSION TO THE ORIGINAL TARGET OF 26 PERCENT. SEASONALLY ADJUSTED EXPANSION OF DOMESTIC CREDIT THROUGH THE FIRST SIX MONTHS WAS 11.6 PERCENT.

5. SUCCESS IN RESTRAINING DOMESTIC CREDIT HINGES HEAVILY ON FISCAL PERFORMANCE. SURGING TAX REVENUES AND A TIGHT HAND ON GOVERNMENT EXPENDITURES COMBINED TO PRODUCE AN OVERALL FISCAL SURPLUS OF 132 BILLION WON FOR JAN-JUNE (PRELIMINARY FIGURES), A SWING OF 367 BILLION WON FROM THE 235 BILLION WON DEFICIT FOR THE SAME PERIOD IN 1975. THE RESULT WAS A NET CONTRACTION OF 165 BILLION FOR DOMESTIC CREDIT TO THE PUBLIC SECTOR FOR THE SIX MONTH PERIOD. HOWEVER, LOOMING AHEAD ARE THE TRADITIONAL SUPPLEMENTARY BUDGET, TO BE SUBMITTED TO THE NATIONAL ASSEMBLY IN SEPTEMBER, AND THE USUAL GOVERNMENT OUTLAYS FOR RICE PURCHASES IN THE FALL. CURRENT THINKING CALLS FOR PARING THE SUPPLEMENTARY BUDGET REQUEST TO 150 BILLION WON AND FLOATING 100 BILLION IN BONDS TO REDUCE THE INFLATIONARY IMPACT OF AN ANTICIPATED 300 BILLION DEFICIT IN THE GRAIN SUBSIDY ACCOUNT. PRICE HIKES TO REDUCE OR ELIMINATE GRAIN AND UTILITIES SUBSIDIES WOULD BOTH IMPROVE THE FISCAL POSITION AND CORRECT NAGGING STRUCTURAL DEFICIENCIES, BUT ARE RESISTED ON THE GROUNDS THAT THE SHORT-TERM IMPACT ON THE PRICE INDICES WOULD THREATEN THE NOW NEARLY INVIOLEATE PRICE TARGETS. THOSE TARGETS REMAIN UNCHANGED, INCLUDING GOALS O YEAR-END TO YEAR-END INCREASES OF 10 PERCENT FOR WHOLESALE PRICES AND 12 PERCENT FOR RETAIL PRICES. ON THE STRENGTH OF CURRENT TRENDS, INCLUDING UNADJUSTED INCREASES OF 4.6 PERCENT FOR WHOLESALE PRICES AND 6.3 PERCENT FOR RETAIL PRICES THROUGH JUNE, THOSE TARGETS APPEAR ATTAINABLE.

UNCLASSIFIED

UNCLASSIFIED

PAGE 04 SEOUL 05696 01 OF 02 231220Z

6. MEANWHILE, THE BOK HAS MOVED IN RECENT WEEKS TO ASSERT AN EVEN TIGHTER HAND ON DOMESTIC CREDIT TO THE PRIVATE SECTOR. THE PRINCIPAL MEASURES INCLUDE: (1) RAISING ITS BASIC DISCOUNT RATE FOR BORROWING BY COMMERCIAL BANKS FROM 14 PERCENT TO 19 PERCENT, MAKING IT A PENALTY RATE VERSUS THE OFFICIAL COMMERCIAL BANK LENDING RATE OF 15.5 PERCENT; AND (2) DESIGNATING SPECIFIC COMMERCIAL BANKS TO HANDLE ALL BANKING RELATIONSHIPS WITH INDIVIDUAL MAJOR FIRMS IN AN EFFORT BOTH TO PROVIDE BETTER OVERSIGHT OF CREDIT RATIONING AND HOPEFULLY TO ASSURE REASONABLE ACCESS TO CREDIT BY SMALL AND MEDIUM-SIZED ENTERPRISES. AS PREVIOUSLY REPORTED, THE MINISTRY OF FINANCE AND BOK HAVE ALSO TAKEN A SERIES OF MODERATE MEASURESTO SLOW SHORT-TERM CAPITAL INFLOWS AND RESTRAIN THE GROWTH OF FOREIGN EXCHANGE RESERVES, AND ADDITIONAL MEASURES ARE LIKELY.

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 SEOUL 05696 02 OF 02 240319Z

14

ACTION EUR-12

INFO OCT-01 EA-09 IO-13 ISO-00 CIAE-00 DODE-00 PM-04 H-02

INR-07 L-03 NSAE-00 NSC-05 PA-02 PRS-01 SP-02 SS-15

USIA-15 EB-07 COME-00 TRSE-00 OMB-01 FRB-01 XMB-04

OPIC-06 AID-05 STR-04 AGR-10 /129 W

----- 002283

R 230822Z JUL 76

FM AMEMBASSY SEOUL

TO SECSTATE WASHDC 8476

INFO AMEMBASSY TOKYO

AMEMBASSY TAIPEI

AMCONGEN HONG KONG

U S DEL MTN GENEVA 370

U S MISSION GENEVA

U S MISSION OECD PARIS 552

UNCLAS SECTION 2 OF 2 SEOUL 5696

7. ON THE SAVINGS SIDE, THE IMPROVED FISCAL PERFORMANCE IS COUNTED ON TO RAISE PUBLIC SECTOR SAVINGS. FIGURES SHOWING THE FINANCIAL SAVINGS PROGRAM ACHIEVING 63 PERCENT OF THE 1,000 BILLION WON 1976 TARGET THROUGH JUNE 30 PROVIDE A BASIS FOR OPTIMISM ON THE OUT LOOK FOR PRIVATE SAVINGS AS WELL. IN AN ENCOURAGING INDICATOR OF SAVINGS PERFORMANCE, THE PRELIMINARY FIRST QUARTER GNP DATA SHOW TOTAL DOMESTIC SAVINGS IN REAL TERMS EQUAL TO 13.2 PERCENT OF GNP, A VERY STRONG SHOWING WHEN ADJUSTED FOR SEASONAL FACTORS, E.G., IT IS ALMOST TWICE THE 6.9 PERCENT RATIO RECORDED IN LAST YEAR'S FIRST QUARTER.

8. GNP FIGURES SHOWING JAN-MARCH REAL FIXED INVESTMENT DOWN 8 PERCENT FROM LAST YEAR'S PACE CONFIRM EARLIER OBSERVATIONS THAT INVESTMENT WAS GENERALLY SLUGGISH IN THE INITIAL QUARTER. THIS DECLINE WAS LARGELY ATTRIBUTABLE TO A DROP OF 37 PERCENT IN GOVERNMENT CONSTRUCTION, REFLECTING THE SHARP SHIFT IN FISCAL POLICY, BUT INVESTMENT IN MACHINERY AND EQUIPMENT AS ALSO OFF 15 PERCENT. IN CONTRAST, MOST INDICATORS POINT TO AN
UNCLASSIFIED

UNCLASSIFIED

PAGE 02 SEOUL 05696 02 OF 02 240319Z

ACCELERATING TREND FOR INDUSTRIAL INVESTMENT AS THE YEAR PROGRESSES. FIRST HALF PERMITS FOR INDUSTRIAL CONSTRUCTION, FOR EXAMPLE, ARE UP 89 PERCENT OVER A YEAR AGO, AND EPB IS NOW FORECASTING STRONG ARRIVALS OF FOREIGN LOAN FINANCED CAPITAL EQUIPMENT IMPORTS OVER THE FINAL SIX MONTHS, AFTER A GENERALLY SLUGGISH FIRST HALF.

9. FURTHER EVIDENCE OF THIS PATTERN IS PROVIDED IN FIRST HALF FIGURES FOR FOREIGN LOANS AND INVESTMENT WHICH SHOW NEW COMMITMENTS OF \$1.7 BILLION AS OPPOSED TO ACTUAL ARRIVALS OF ONLY \$526 MILLION. NEW COMMITMENTS FOR COMMERCIAL LOANS ALONE TOTALED \$783 MILLION, 85 PERCENT ABOVE THE \$424 MILLION TOTAL FOR ALL 1975. FINANCING COMMITMENTS FROM JAPANESE AND EUROPEAN SOURCES ACCOUNT FOR THE BULK OF THAT FIGURE, WITH NEW COMMITMENTS FROM U.S. SOURCES ACCOUNTING FOR ONLY \$98 MILLION, DOWN 43 PERCENT FROM JANUARY - JUNE 1975. IN SHARP CONTRAST TO THE COMMERCIAL LOAN ACTIVITY, DIRECT FOREIGN EQUITY INVESTMENT REMAINS AT A LOW EBB WITH JANUARY-JUNE APPROVALS OF ONLY \$20 MILLION AND ACTUAL ARRIVALS OF JUST \$27 MILLION.

10. IN EASILY THE MOST CONSERVATIVE PROJECTION AMONG THE SET OF NEW FORECASTS, EPB LOWERED ITS ORIGINAL TARGET FOR THE 1976 BALANCE OF PAYMENTS DEFICIT ON CURRENT ACCOUNT BY JUST \$200 MILLION TO \$1.3 BILLION. AS REPORTED IN REFTEL, SHORT OF A DRAMATIC SHIFT IN ROKG POLICIES, THE EMBASSY NOW ANTICIPATES A DEFICIT OF ON THE ORDER OF \$800 TO \$900 MILLION. PAIRED WITH ITS CAUTIOUS EXPORT FORECAST OF 7.1 BILLION, EHB HAS UPPED ITS IMPORT PROJECTION TO \$7.9 BILLION, F.O.B., PRINCIPALLY TO REFLECT ITS EXPECTATIONS FOR A STRONG FLOW OF FOREIGN LOAN FINANCED IMPORTS OVER THE FINAL SEMESTER. THE EPB FORECAST ALSO LARGELY IGNORES WHAT SEEMS TO BE ALMOST INCONTROVERTIBLE EVIDENCE OF A FAR STRONGER-THAN-EXPECTED PERFORMANCE IN THE SERVICES ACCOUNT OVER THE FIRST SIX MONTHS, PROJECTING A NET DEFICIT FOR SERVICES AND TRANSFERS OF \$507 MILLION FOR THE YEAR. SOME OF THE APPARENT INCONSISTENCY OF THIS BALANCE OF PAYMENTS PROJECTION IS POINTED UP BY THE FACT THAT SIMULTANEOUSLY WITH RELEASING THIS FULL YEAR FORECAST, EPB ESTIMATED THE FIRST HALF CURRENT ACCOUNT DEFICIT AS AN AMAZINGLY LOW \$350 MILLION, BUILT AROUND EXPORTS OF \$3.39 BILLION, IMPORTS, F.O.B., OF \$3.54 MILLION AND A NET DEFICIT FOR SERVICES AND TRANSFERS OF \$200

UNCLASSIFIED

UNCLASSIFIED

PAGE 03 SEOUL 05696 02 OF 02 240319Z

MILLION. FOR ITS PART, THE EMBASSY ALSO FORESEES FINAL FIGURES FOR THE FIRST HALF DEFICIT OF ROUGHLY THAT MAGNITUDE, EXPECTING SOMEWHAT HIGHER VISIBLE IMPORTS BUT A SMALLER DEFICIT FOR SERVICES AND TRANSFERS.

11. COMMENT: BY VIRTUALLY EVERY MEASURE, THE KOREAN ECONOMY IS ENJOYING A BANNER YEAR OF RECOVERY AND GROWTH IN 1976. THERE HAS BEEN CONCERN THAT THE LATE ARRIVAL OF THE MONSOON COULD SERIOUSLY AFFECT THIS YEAR'S RICE CROP, BUT THOSE FEARS WERE LARGELY DISPELLED WHEN THE RAINY SEASON FINALLY PUT IN ITS APPEARANCE. KNOWLEDGEABLE KOREANS ARE ALSO KEEPING A WARY EYE ON THE RECENT SHARP INCREASES IN A RANGE OF INTERNATIONAL COMMODITY PRICES. HOWEVER, THE MOST SERIOUS IMMEDIATE THREAT IS REALLY EXCESS LIQUIDITY, OR OVERHEATING, A PROBLEM THAT CAN BE MANAGED WITH AN APPROPRIATE SET OF ECONOMIC AND FINANCIAL POLICIES. THE DANGER FOR THE MOMENT IS THAT BY BEING TOO CAUTIOUS IN UNDERESTIMATING THE APPARENT STRENGTH OF THE EXTERNAL SECTOR IN THE SECOND HALF, ROKG OFFICIALS RUN THE RISK OF FINDING THEIR PRESCRIPTIONS FOR DEALING WITH THE DOMESTIC MONETARY CONSEQUENCES OF THAT SURGING EXTERNAL DEMAND TOO WEAK TO ADEQUATELY DEAL WITH THE PROBLEM.

SNEIDER

UNCLASSIFIED

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC GROWTH, POLICIES, ECONOMIC ESTIMATES, ECONOMIC PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 23 JUL 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976SEOUL05696
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760285-0345
From: SEOUL
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760728/aaaaaxui.tel
Line Count: 295
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EA
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: 76 SEOUL 5450
Review Action: RELEASED, APPROVED
Review Authority: hackerp0
Review Comment: n/a
Review Content Flags:
Review Date: 27 FEB 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <27 FEB 2004 by ThomasVJ>; APPROVED <06 JAN 2005 by hackerp0>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ROKG RAISES 1976 ECONOMIC PERFORMANCE TARGETS -- BUT NOT MUCH
TAGS: ECON, KS
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006